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US Airways: The Ugly Girl Gets Married Again

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Abstract

Title: US Airways: The Ugly Girl Gets Married Again

This case follows US Airways' performance from inception to the potential merger with bankrupted American Airlines in 2012. Throughout the case, several events that endangered the existence of US Airways are brought into light. These events serve as basis to introduce the value of leverage and financial distress costs. Moreover, the case reflects on the decision between out-of-court restructuring and chapter 11, while assessing distressed mergers and acquisitions. Finally, the potential merger is analyzed and the proposed solution is that new equity should be split 69-31 per cent between American Airlines' unsecured creditors and shareholders, and US Airways' shareholders.

Keywords: Costs of Financial Distress, Bankruptcy, Mergers and Acquisitions, Deal Financing

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US Airways: The Ugly Girl Gets Married Again

*"As one of you simply put it, **"Why are we the ugly girl?"** The answer, of course, is we are not and there's no better evidence of that than our recent performance."*

Douglas Parker - Chief Executive Officer, US Airways

On January 2012, William Douglas Parker, usually treated as Doug Parker, US Airways Inc. Chief Executive Officer since 2005, sat back on his office in Tempe, Arizona, wondering which path the company would have to follow to remain competitive in the business after a series of episodes that had endangered its very existence. North America's number three airline, American Airlines, had filed for bankruptcy by the end of 2011 after falling behind in the domestic market to Delta Air Lines and United Continental Airlines. Doug Parker had long promoted industry consolidation and saw in American Airlines an opportunity to form United States' largest airline company, after two failed attempts in 2006 and 2010 that led US Airways to be nicknamed "ugly girl". However, he was aware that the potential benefits could be shadowed by both inefficient integration and protracted bankruptcy. His task was now to realize whether US Airways should bid for American Airlines and, if so, coming up with an attractive deal structure that would guarantee its acceptance.

Taking Off

The company's tag traces back as far as 1939, where it began operating as a mail carrier in Pittsburgh under the name of All American Aviation, Inc. It was only after 1949 that the company transitioned for a passenger service. The company expanded greatly during the 50s and the 60s, relying on Convair CV-340s, CV-580s, and Douglas DC-9s and starting its first commuter service,[1] later known as "US Airways Express".

[1] A commuter service is provided by a commuter airline, whose business is to deliver passengers to the major airline's hubs from surrounding communities and link small destinations with large cities.

The vision to enhance its position through mergers and acquisitions started with its longest serving CEO, Edwin Colodny, who oversaw four mergers from 1975 to 1991. See **Exhibit 1** for a List of Mergers. Also, facing the Airline Deregulation Legislation Act in 1978, it was up to Colodny and his team to oversee the transition from regulated to deregulated market. By 1979, the team realized that they were no longer an airline for the American northeast, renaming it USAir.

The competition dramatically increased when the industry faced deregulation. It brought increased pressure to keep a competitive cost structure alongside an efficient use of assets and financing available, as a wrong move would tear off the air carrier's wings and throw it to bankruptcy. Yet, Colodny took US Airways' employees in high regard, as he put it "They're the ones who run the airlines", with many of them being unionized and assured wage and benefit growth.

Following the deregulation during the 80s, the competition-pressured fares along with labor strife, increases in jet fuel prices and economic meltdown led to the bankruptcy of dominant carriers. Nevertheless, USAir continued its aggressive inorganic growth, by striking new ambitious deals with Pacific Southwest Airlines and Piedmont Airlines. Both companies added money-losing routes and harmed its brand name with constant flight delays, lost luggage and abrupt employees.

In 1997, under the leadership of the Stephen Wolf, the airline changed its name to US Airways. By the change of century, the company emplaned almost 56 million passengers yearly and operated routes in continental United States, Canada, the United Kingdom, and other leading destinations in Europe. It held its major hubs at airports in Charlotte, Philadelphia and Pittsburgh, while ranking as the sixth largest domestic air carrier per revenue passenger miles.

Brace for Impact

In the wake of the 21st century, aiming to significantly simplify fleet types and cut operational costs through commonality and improved efficiency, US Airways began a transition for an all-Airbus fleet. However, the company suffered heavy financial losses during this period and considered merging with United Airlines. The deal fell short after an antitrust challenge stopped it from happening.

On September 11, 2001, the airline industry faced its biggest crisis to date.[2] Besides the temporary closing of airports, flight cancelation and the reputational effects, the stock market also suffered. To

[2] On September 2001, Al Qaeda terrorists hijacked four passenger planes and carried out coordinated attacks against the World Trade Center in New York City, N.Y. and Pentagon in Washington, D.C. killing thousands of people.

prevent a stock market meltdown, the New York Stock Exchange did not open for trading until September 17, the longest shutdown since 1933. Airlines diverted resources from capacity expansions to training and to security products and services, reshaping the whole industry. While investing heavily and costs adding up, airlines experienced at least a 30 percent reduction in demand during the initial period after the attack, forcing them to drop prices to generate demand.

Going Bankrupt: Part I

The times following this event would be extremely challenging for US Airways as it lost $552 million in the fourth quarter of 2001 and $269 million during 2002's first quarter. Also, the company's stock had fell 99.4% since 1998 - from trading at high $83 to 54 cents. US Airways was the largest carrier operating at Washington, D.C.'s Reagan National Airport, which remained closed for nearly a month. Moreover, the lack of a competitive cost structure against its peers and inability to cut fixed costs in the short-term doomed the airline to take considerable losses. As such, US Airways tried to cut losses through the closure of MetroJet operations[3] and firing of thousands of employees.

Shortly after 9/11, Stephen Wolf substituted Rakesh Gangwal, who served as Chief Executive Officer by that time. The departure took place in a critical time for US Airways. Still, it meant a welcomed comeback of Stephen Wolf to operations, after handing out that responsibility to Gangwal in 1998 and serving as chairman since then. However, his comeback was a short one with David Siegel being nominated CEO and facing the challenge of returning US Airways to profitability.

Already under the new management, the company announced that was currently working with its key stakeholders to develop an out-of-court restructuring plan with the support of the Air Transportation Stabilization Board (ATSB). The company believed that, considering its liquidity issues, would rapidly reach an accord with its creditors, that would keep it from filing for Chapter 11. **Exhibit 3** provides an overview to Out-of-Court Restructuring Plan and U.S. Bankruptcy Code.

However, on August 11, 2002, after failing to reach an agreement with its creditors, US Airways filed for bankruptcy protection. By the end of March 2003, bankruptcy judge had approved US Airways' restructuring plan after receiving strong endorsement from the creditors' committee. The proposed plan aimed to dissolve the pilots' current pension plan and cut benefits by 75 percent. The bankruptcy

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[3] MetroJet was the low-cost operation based at Baltimore-Washington International Airport. The 9/11 events gave US Airways a rationale to invoke a force majeure clause in its labor contracts to close operations.

court approved the dissolution of the current plan but not the airline's replacement proposal. If this proposal was accepted, the airline could save $1.8 billion a year in employees' wages and benefits.

The company took on a $900 million loan from ATSB and $500 million debtor-in-possession financing[4] facility from a group led by Credit Suisse First Boston and Bank of America. Other $240 million from Retirement Systems of Alabama (RSA) were provided in exchange for 36.6 per cent of its equity and the majority of the voting rights. Additionally, the company decided that its existing common stock would be wiped out once it emerged from bankruptcy, with its new common stock to be split between RSA, pilots' union, unsecured creditors and its CEO. **Exhibit 4** shows the effects of the Plan of Reorganization. Finally, US Airways had a better chance to carry on its restructuring plan that included buying up to 200 more regional jets and capitalize on its US Airways Express division.

Going Bankrupt: Part II

Despite having taken off from bankruptcy, US Airways had still issues to unravel including negotiations with other labor unions and a $3.1 billion unfunded pilot pension plan. The airline would still have to negotiate a benefits plan with its unions that was both acceptable and sustainable.

The company considered the growth of low-fare low-cost competition and rising presence of their regional jets to be its foremost competitive threats, with Southwest and Frontier entering its Philadelphia hub by 2004. Besides pressure on the revenue side, US Airways also failed to obtain more $800 million in annual cost savings from its workers' unions. This endangered its restructuring plan as it failed to ensure sufficient cost savings and funding to proceed with the plan.

In the light of his failure to obtain concessions from its employees, David Siegel announced that would be leaving the company in April. This resignation came after criticism to Siegel's management, especially from US Airways unit of the Airline Pilots Association. The unit demanded the resignation after management's failure to make the airline profitable despite billion of dollars' worth of concessions. Also, the new compensation package with a potential value of $11 million awarded to the CEO following the airline's weak performance seemed inappropriate and nurtured dissatisfaction.

It seemed that Colodny's decision in the 80s to provide strong benefits and generous payment to his employees haunted the company until the beginning of the 21st century. After developing a bad

[4] Debtor-in-possession financing (DIP financing) is financing arranged by a company while under the Chapter 11 banruptcy process. DIP financing is unique from other financing methods in that it usually has priority over existing debt, equity and other claims.

relationship with employees, criticism rose when both Siegel and his CFO left with substantial golden parachutes in April of 2004, with cash and stock totaling at least $7 million. The new CEO, Bruce Lakefield, came as a direct nomination from the board shortly after Siegel's departure. Unable to stop the bleeding and get more cost savings, Lakefield decided that the company needed to preserve its much-needed cash and restructure the seventh biggest US airline under Chapter 11. This would give protection from its creditors while it reorganized its business operations to become more like its discount rivals.

Investors gossiped about US Airways' possible filing for Chapter 7 (liquidation) after its failure to restructure in 2002 and its new filing for bankruptcy protection just two years later. The 2002 restructuring plan allowed the company to cut its total debt and leases by 30 percent, through restructuring finance agreements of 200 aircraft and reduce pension funding requirements by 25 percent. It had emerged from bankruptcy one year before, with an adequate $1.3 billion in cash and a solid "B" credit from S&P. The company had just sold 34 million shares through private placement to three institutional investors including Goldman Sachs at the RSA purchase price, an important vote of trust for the equity markets.

The company clarified this new filing as a mean to proceed to further cost savings - the airline was still incapable to compete with low-cost competitors. Hence a new aim to cut 25 percent after establishing a benchmark with profitable airlines. The failure to anticipate rising fuel costs also weakened its odds to successfully restructure. Nevertheless, the departure of its CFO Dave Davis less than six months after taking office and just a month after the airline filed for bankruptcy protection increased the rumors of bad management.

Reverse Merger with America West Airlines

On May 12, 2005, a joint release between America West Airlines (AWA) and US Airways announced that the two companies would be merging into one of the biggest discount airlines, providing coast to coast flights. Although structured as an acquisition by AWA, US Airways would accommodate the western airline's operations, with the latter losing its name and becoming a subsidiary of US Airways. The deal would be financed by $1.5 billion.[5] The merger plan had projected annual cost

[5] This included $675 million from debt refinancing and credit card companies, $350 million from a quartet of private investors including Air Canada, PAR Investment Partners, Peninsula Investment Partners and Air Winsconsin, $250 million from Airbus and $200-$300 million from cash reserves.

savings and revenue synergies of $600 million, and the new company would own 361 planes and 44,100 employees with little overlap in its routes.

US Airways had the goal to become a full discount airline since 2002, but had failed to accomplish the necessary cost cutting. This merger would make US Airways more competitive by leveraging on AWA's more efficient cost structure and its latest cost cutting measures, expanding low fare service, removing infrastructure overlap or idleness and increasing point-to-point flying at minimal additional costs. Finally, this merger would provide the necessary capital injection that the company needed.

After hearing all remaining objections including the severance package of $12 million delivered to top executives, the bankruptcy court approved the first main merger since the 9/11 events. On September 27, 2005, the reorganized company began trading under the ticker "LCC".[6] Shortly after its emergence, ATSB's loans with a combined worth of $752 million in the merged company were sold to thirteen fixed income investors. Moreover, the company issued convertible notes with net proceeds of $139 million and credit card agreements with Barclays. During bankruptcy protection, US Airways executed flight equipment asset sale and sale-leaseback transactions that yielded net proceeds of $260 million and reduction in aircraft related debt of $561 million.

A Second Marriage

While US Airways got the go-ahead exit bankruptcy, Delta Air Lines Inc. and Northwest Airlines Corp. filed for bankruptcy protection. United struggled to emerge from bankruptcy since December 2002. The airline industry seemed to be facing disproportionate new challenges, with distressed assets looking for consolidation and struggling to remain in the skies. **Exhibit 5** shows main bankruptcies since 2001.

US Airways' merger with America West Airlines was at best a qualified success. After enduring two bankruptcy filings, the airline faced poor integration of reservation systems, decline in service quality and plunging worker morale. Moreover, high amounts of debt rapidly went back in its balance sheet after an all-time high $100-a-barrel oil and a tempestuous financial crisis of 2007-2008. **Exhibit 2** displays stock performance. It became evident to Doug Parker that the industry would benefit from consolidation and that was in the best interest of its shareholders, customers and employees.

[6] US Airways' unsecured creditors held 12 percent, outside investors who provided financing detained 52 percent and AWA shareholders kept 37 percent ownership stake in new entity.

Episode I: Delta Air Lines

On November 2006, US Airways made a move to be No.1 with a surprise $8 billion cash and stock hostile bid for its bigger rival Delta Air Lines who had filed for bankruptcy earlier that year. The deal comprised of $4 billion in cash and 78.5 million shares that were worth around $4 billion at the time.

The bid could spark a round of mergers leaving the country with only a handful of airlines. Delta Air Lines was number three while US Airways had just become number five. US Airways offered to pay for Delta's debtor-in-possession financing agreements and all other secured claims. Delta's management did not endorse the deal, saying that the carrier planned to remain independent. They determined that the proposal was not in management's best interests nor shareholders'. By early 2007, US Airways withdrew its offer after being left at the altar.

Episode II: United Airlines

On April 2010, US Airways and United Airlines entered in merger talks in their latest efforts to become number two in the domestic market after Delta Air Lines' merger with Northwest. By that time, US Airways had still not integrated with America West in regard to pilot seniority,[7] being stalled over union infighting.

United was looking for a partner since it held extensive talks to merge with Continental Airlines that ended up refused. One consultant analyzing the deal stated, "United has been standing at the altar waiting for the bride to show up and just got tired of waiting." He still added that "maybe by flirting with another girl, it can get Continental's attention again".

Few months later, Continental and United tied in a stock swap[8] valued at $3 billion to create the world's biggest airline and overthrow Delta Air Lines. Jeffery Smisek, Continental's CEO said that he "recognized that United was the best partner for Continental, and didn't want him to marry the ugly girl". This comment sparkled an immediate reaction on Doug Parker, who wrote a letter to his employees assuring that the company was far from heinous (**Exhibit 6** shows detailed letter sent to employees). US Airways had always been an ugly duckling and had never been respected as a major airline. But Doug Parker was about to change that.

[7] Pilot seniority regards overall work conditions, including payroll, work schedule and possible furlough.
[8] A stock swap occurs when shareholders' ownership of the target company's shares are exchanged for shares of the acquiring company as part of a merger.

Episode III: American Airlines

On November 2011, CEO Doug Parker saw his long-lasting search for a partner after being abandoned at the altar twice come to an end when American Airlines (AMR) filed for Chapter 11. On January 2012, he publicly acknowledged his interest and hired Barclays Capital to help study merger possibilities related to AMR. The CEO could now complete the industry consolidation that had begun with America West. After two failed attempts at major mergers, he questioned about what could be done differently in this one.

Bankruptcy

American Airlines (AMR) and some of its subsidiaries filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy code. The trading in its common stock and certain debt securities was suspended on January 5, 2012 and then delisted from New York Stock Exchange by the end of the month, being only traded over-the-counter afterwards. **Exhibit 7** shows quarterly stock performance in 2011 and 2010. This bankruptcy filing came as a response to high fuel prices, consecutive losses and dampened travel demand. Moreover, the company was spending more in labor than most of its main competitors. Such analysis is performed in **Exhibit 13**, where you can find information about US-listed airlines' cost structure. American Airlines had lost $2.1 billion in 2008, $1.5 billion in 2009 and $471 million in 2010, being in a weakened financial situation that cried for restructuring. **Exhibits 11 and 12** present information on its historical financials.

The company held a few tax benefits that it could use in a bankruptcy case, considering its heavy losses (**Exhibit 19).** However, it was in a fragile position to cut costs as contract talks with pilots had hit a wall just few weeks before it filed for bankruptcy. On February 2012, AMR announced that its main objectives was to obtain $2 billion in annual savings and $1 billion in revenue enhancement. It expected significant reductions in both labor and non-labor costs by reducing headcount by 13,000, outsourcing maintenance work and airport clerk work and terminating its defined benefits pension plans. Although AMR CEO Thomas Horton wanted to emerge from bankruptcy as an independent firm, he was aware that AMR could suffer from protracted bankruptcy. This would adversely affect its operating results, including relationships with partners, vendors and customers, and ultimately its worth as going concern. See **Exhibit 20** for 2012-2016 forecasted cash-flows of American Airlines.

Operations and Strategy

AMR Corporation operated through its main subsidiaries: American Airlines and AMR Eagle Holding. American Airlines was primarily a scheduled air freight and mail services to shippers. American Airlines was a legacy carrier operating a hub-and-spoke system[9] while AMR Eagle owned and operated two regional airlines: American Eagle Airlines and Executive Airlines. American Eagle provided connections at American Airlines' hubs and other major airports.

On August 11, 2011, AMR Eagle filed a potential spin-off from its parent company, AMR Corporation. American Airlines planned to buy Eagle's aircraft and then lease it back to get Eagle's balance sheet rid of indebtness. However, as a result of Chapter 11, AMR's planned divestiture of AMR Eagle was placed on hold.

By the end of 2011, American Airlines, AMR Eagle and the AmericanConnection codeshare agreement[10] served 250 cities in 40 countries with more than 3,400 daily flights. Their combined fleet number was almost 900 aircraft. Merging with AMR meant that the new company would be able to operate over 1,300 aircraft. This yielded a potential benefit to US Airways as it would now be able to increase regional service through AMR's subsidiaries and reduce dependency on other airlines flying under the US Airways Express agreement as shown in **Exhibit 8.** However, merging the two fleets meant that the new fleet would also consist of both Boeing and Airbus aircraft, difficulting a possible transition to fleet standardization. **Exhibit 15** presents combined aircraft of both companies as of December 31, 2011. **Exhibits 13 and 14** show Domestic network and International network between US Airways and American Airlines.

Industry Performance

The US airlines industry showed growth except for 2009. It had total revenues of $186.6 billion in 2011, representing a compound annual growth rate (CAGR) of 2.6 percent between 2007 and 2011, assumed to hold for the next five years.

Exhibit 16 provides information on the capital structure, levered betas and trading multiples of both firms, peers and other relevant information about the industry. **Exhibit 15** shows interest rates for US treasury bonds, corporate default spreads and market performance in past two years. The marginal

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[9] A route operating system where the "hub" is a central airport and "spokes" are the routes that connect the hub to other locations.

[10] A codeshare agreement is an aviation business arrangement where two or more airlines share the same flight.

corporate tax is assumed to remain constant at 40 percent for the period under analysis. From 2016 onwards, the free-cash flow is expected to grow at the long-run inflation rate of 1.5 percent.

Synergies

For Doug Parker, it was extremely important to get the possible synergies right as an overestimation would make the premium paid potentially higher and the wealth of acquirer's shareholders to be diluted. According to advisors and industry experts, synergies could be driven either by operational network or by cost efficiency. Network synergies arose from expanding routes and destinations, efficient scheduling of round trips and access to aircraft and airport slots and facilities. Cost synergies arose out of increased operational efficiencies, savings in integrating information systems and better use of gate space and other facilities. Doug Parker and other top executives believed that $1.05 billion per annum was a conservative estimate for the synergies arising from the deal.

However, there was no assurance that regulators would not impose terms, requirements or restrictions that would not only delay the merger but also impose material losses and limit the potential growth of the merged company. **Exhibit 9 and 10** shows historical financial statements of US Airways. **Exhibit 19** provides forecasted US Airways' financials for the period 2012-2016.

Risks

After hiring advisors to do due diligence over American Airlines and study a possible merger, Doug Parker's attention was called to several risks that could undermine the merger's potential benefits.

In case US Airways decided to present a formal bid for AMR, the company was immediately prohibited to pursue other strategic alternatives unless it terminated Merger Agreement. However, if the airline decided to terminate it, it would be required to pay termination fees ranging from $55 million to $195 million. Finally, Doug Parker knew that this merger could potentially lead to management distraction from evaluating likewise important projects and overlooking US Airways' operational efficiency and business strategy.

Even if the merger was successful, the surviving company would be required to devote substantial resources and attention in integrating complex IT systems, operating procedures, technology, networks, aircraft fleets and other assets. Combining fleets was particularly difficult as it demanded significant increases in pilot training, maintenance, and additional spare parts. Moreover, Parker was aware of past mistakes and knew that it was difficult to blend workforces of the two companies, while maintaining focus on providing the best customer service possible and running operations efficiently. As such, Parker and his team anticipated that one-time cash costs would be up to $1.2 billion equally spread over three years.

Doug Parker was aware of the value of labor and creditor backing after the hostile bid for Delta Air Lines collapsed in 2007. Labor unions that often opposed mergers feared the loss of employment and seniority or salary reduction. He realized that it was necessary to meet interests of labor unions, unsecured creditors and shareholders with his proposal. The impaired creditors and labor unions played an important role in accepting the merger and cutting costs so that it was crucial to include both groups in negotiations. **Exhibit 22** provides an estimate of each class' bankruptcy claims.

Deal Structuring

Doug Parker knew that, although distressed, American Airlines would not capitulate to US Airways unless he made an offer that was difficult to refuse. However, he also needed to lure his shareholders to accept the deal so that they would not be the losing party.

Being this the case, he had three alternatives:

1) **Pay with Stock:** the risk of potential synergies not materializing would be split up between shareholders. Nevertheless, shareholders' stake would be diluted and their role in the merged company diminished. But unlike most mergers paid with new stock, US Airways was aiming to acquire a company much bigger. Its stock was trading at $5.07 as of December 31, 2011.
2) **Pay with Cash:** shareholders would be taking on the entire risk that the expected value of synergy embedded in the premium did not materialize. Moreover, the company would be taking in more debt as it did not hold enough cash to buy-out American Airlines. Although its filing for Chapter 11 made it look in place for a potential bargain, American Airlines reportedly had $4 billion in cash and explained its filing as a mean to cut costs not due to liquidity problems. Finally, shareholders would not suffer from ownership dilution.
3) **Pay with Stock and Cash:** Shareholders' stake would be diluted and would incur in a higher risk than American Airlines'. Yet, they would have to share less of their ownership than in an all-stock buy-out and spend less of company's cash, similarly to the proposal made for Delta.

The Decision

After performing thorough due diligence on American Airlines, Doug Parker must make a set of critical decisions from deal making to financing. He is aware of the potential synergies and benefits that this merger could bring for US Airways. But he is apprehensive concerning integration costs being too high and potential anticompetition lawsuits hindering the merger. Moreover, his target is in Chapter 11 and a protracted bankruptcy process could irreversibly damage company's image and negatively affect cash-flows forecast as time passes by. Doug Parker needs to act fast, assess the value of American Airlines as a going concern and decide on the best way to structure the deal. After losing thrust several times in its history, will US Airways, like its famous pilot Sully, finally find a soft, safe and liquid place to land?

TEACHING NOTE

Learning Objectives

This case explores several attempts by US Airways to find a merging partner after a series of events that endangered its existence in the beginning of the 21st century. It discusses a potential merger between US Airways and American Airlines, which was attempting to exit bankruptcy since end of 2011. Moreover, it involves deal financing and particularities of distressed mergers.

This case introduces students to issues: (1) The effect of leverage in the airline industry; (2) The costs of financial distress and protracted bankruptcy; (3) Chapter 11 restructuring process; (4) Distressed mergers and acquisitions; (5) Deal financing. The case can be taught in a class dedicated to bankruptcy, mergers and acquisitions or the value of leverage. The US Airways case is a bridge between bankruptcy and mergers and acquisitions, providing a practical insight to the topic of distressed mergers and acquisitions.

Furthermore, the case gives the opportunity to discuss the tradeoff between value creation through leverage and costs of financial distress. It explains the impact of protracted bankruptcy in a firm's cash-flows and critically assesses Chapter 11 as an alternative to out-of-court restructuring.

Case Summary

US Airways had roots in All American Aviation, in 1939. Since then, it moved from serving solely the American northeast to serve the entire American territory and international routes. Most of its expansion happened inorganically, unlike other airlines. The M&A deals rose issues as inefficient post-merger integration and heavily unionized labor, which ultimately contributed for its failure to adapt to exogenous shocks. Consequently, it fell under bankruptcy protection both in 2002 and 2004.

The first bankruptcy came after a failed attempt to restructure out-of-court. Because of 9/11, its hub in Washington, D.C. stayed closed longer than any other hub. Moreover, the dramatic improvements in security and training combined with a demand fall, worsened its performance. Seven months later, with the support of Air Transportation Stabilization Board, the company took off from bankruptcy protection with solid "B" credit and a private placement of 34 million shares only to fall again and eventually merge with America West Airlines.

The new CEO taking office, Doug Parker, believed that the industry would benefit from consolidation and that was in the best interest of every stakeholder. As such, he attempted two mergers in 2006 and 2010 with Delta Air Lines and United Airlines. On January 2012, US Airways hovers American Airlines that is in Chapter 11 bankruptcy protection since November 2011. After assessing synergies and risks including protracted bankruptcy, Doug Parker must make a key set of decisions.

Outline of discussion

1. The perfect storm: inorganic growth, high leverage and financial distress costs
2. Discussion of out-of-court restructuring versus Chapter 11 bankruptcy protection
3. Discussion of multiple bankruptcy filings and failure to restructure
4. Discussion of mergers and acquisitions under Chapter 11
5. Discussion of protracted bankruptcy and its effect on cash-flows
6. Discussion of options and decision

Detailed outline

1. The perfect storm: inorganic growth, high leverage and financial distress costs

This discussion should start by highlighting the extreme conditions under which most airlines operate - although being in a highly cyclical industry, most are acquainted to sustain leverage levels well above the market's average debt-to-equity **(Exhibit 17)**. The case initially revolves around some bad decisions that US Airways took on in the past that would eventually doom the company to fall into bankruptcy. This included unionized labor-force, high benefits to employees and acquisitions undertaken at a time where the company braced for the impact of industry deregulation. Although possible value can be achieved through tax shields or pure financial leverage effect, excessive borrowing leads to increased risk and augmented likelihood of default. This adds up to the problem of considerable amount of financial distress costs that erase firm's value, and that include bankruptcy costs, assets at distressed fire-sale prices and the departure of valuable human capital. Furthermore, Opler and Titman (1994) found that highly leveraged firms lose substantial market share to their more conservatively financed competitors in industry downturns.

Considering the costs of financial distress, there still should be compelling reasons to why airlines hold so much debt in their balance sheets. **TN Exhibit 1** shows that the air transportation industry's debt-to-equity ratio clearly beats the debt-to-equity ratio of 44 percent among all existing industries in the U.S.. Airlines hold a considerable number of fixed assets including maintenance facilities and airplanes that can be readily used as collateral to finance debt. Moreover, the low profitability of the overall industry makes it difficult to have internally generated funds financing its operations, falling again in the debt financing spectrum. Lastly, debt works as a disciplinary mechanism that prevents management distraction and redundant spending thus tackling possible agency costs (Harris and Raviv 1991). However, the debt burden reduces flexibility to adapt to industry's cyclicality and exogenous shocks that harm the overall economic environment. Also, the failure to realize synergies from past merger deals led to insufficient cash-flows to sustain current level of interest expenses.

During the 80s and 90s, US Airways failed noticeably when acquired Piedmont Airlines and PSA **(Exhibit 1)**. Both companies presented disastrous financial results and failed to preserve US Airways reputation. In the beginning of the 21st century, the terrorist attacks brought the biggest sector crisis to date with airlines adding up costs and experiencing a considerable reduction in demand.

2. Discussion of out-of-court restructuring versus Chapter 11 bankruptcy protection

After taking on considerable losses in the first two quarters after the 9/11, stock reaching new historical lows and facing liquidity issues, its newly arrived CEO David Siegel announced his plans to develop an out-of-court restructuring. This involved changing the structure of assets and liabilities without resorting to a full judicial intervention. Chapter 11, however, forced all creditors and equity interest holders to a court-supervised environment that followed bankruptcy court rules. Markwardt et al. (2016) found that, on average, out-of-court restructuring was usually less costly than Chapter 11. Moreover, an out-of-court restructuring ensured a fast response to the current situation of the company, preventing further bleeding and reducing speculation. Furthermore, research found that Chapter 11 filings even had a larger impact on job loss and lost economic output.

David Siegel knew that it was important to keep the company's reputation, as Chapter 11 meant tightened credit terms and possible lost revenue. Also, the instructor should do the remark that preserving its creditors' confidence was key to the airline's business, as it lacked the ability to produce sufficient internally generated cash-flows to finance its operations. This meant that David Siegel could not burn his creditors much. He wanted to prevent further outcome uncertainty that would arise with a Chapter 11 filing by restructuring out of court. However, the CEO failed to acknowledge the lengthy number of claims and executory contracts that US Airways held at the time **(Exhibit 3)** that made extremely difficult to reach a unanimous decision towards the proposed restructuring plan. Therefore, US Airways filed for Chapter 11, where its new plan would only require a statutorily defined majority **(Exhibit 2).** See **TN Exhibit 2** for an analysis of out-of-court versus Chapter 11.

The bankruptcy filing brought US Airways to the spotlight, adding legal costs and possible risk of protracted bankruptcy that could negatively affect client and supplier relationships and wipe out value. However, it put the airline under scrutiny and corrected possible asymmetric information between managers and outsiders.

3. Discussion of multiple bankruptcy filings and failure to restructure

On March 2003, US Airways left bankruptcy protection after dissolving its pilots' pension plan. Additionally, the company received a capital injection from a pension fund in exchange of most of its voting rights. Part of its newly issued stock was handed to unsecured creditors and pilots, who experienced substantial losses with the restructuring plan.

Nevertheless, US Airways filed for bankruptcy protection again on September 2004. See **TN Exhibit 3** for a summary of relevant episodes concerning US Airways. Its restructuring plan had failed to acknowledge industry shifts, including the growth of low-fare low-cost competition (LCC) and the rising presence of regional jets in its operating hubs. Moreover, the airline failed to ensure sufficient funding to develop its US Airways Express division, whose goal was to connect US Airways' main hubs to small cities. This left US Airways dependent on other regional airlines to serve these untapped markets through capacity purchase agreements **(Exhibit 8).**

Besides strategic flaws, the instructor could point out several mistakes to the airline's management. One of the main mistakes of management was to leave bankruptcy protection without having fully agreed on a benefits plan capable of being sustained by the airline's cash-flows. Not only that, the airline assumed that could still obtain more annual cost savings from its workers after billions worth in concessions. To stir the pot, management received new compensation packages that, although representing an immaterial amount, rose unions' dissatisfaction. Finally, the instructor can also point out that management decisions following the Airline Deregulation Act such as disastrous acquisitions and highly generous payment to employees constrained the airline until the 21st century.

Nevertheless, US Airways also faced misfortune after experiencing considerable losses from rising fuel costs. All these factors led the airline to file Chapter 11 once more, in search of new cost cutting. As observable in **Exhibit 5**, some airlines that entered Chapter 11 struggled to restructure successfully, let alone survive to two bankruptcy protection filings in two years. Midway Airlines and Aloha Airlines filed Chapter 7 of the U.S. Bankruptcy Code after being unable to emerge from bankruptcy protection. US Airways had managed to cut its total debt and leases by 30 percent through restructuring finance agreements of aircraft and reducing pension funding by 25 percent. **Exhibit 4** provides a detailed analysis of the reorganization plan. A portion of the estimated of the liabilities subject to compromise[11] was restructured and continued as part of its debt while the remaining was wrote-off from balance sheet.

The instructor should raise the discussion over court's cramdown powers to force the plan on a dissenting class such as pilots' union. Section 1129 (b) of the U.S. Bankruptcy code states that a plan of reorganization can be accepted notwithstanding the existence of an impaired class that rejects the plan, so long as, the plan is "fair and equitable" to that same class.

As a final act, the instructor should discuss possible room for fraud in the US Airways case. The company had emerged from bankruptcy not long ago, with a solid "B" credit from Standard & Poors and an equity private placement with institutional investors such as Goldman Sachs. The instructor should introduce the foundations of credit rating, including its importance in portraying accurate default risk and possible conflict of interests. Moreover, he should scale the problem from the case of US Airways to the Global Financial Crisis of 2007-2008. Rafailov (2011) found that the failures of credit agency ratings magnified the negative effects of the global financial crisis, generating additional systemic risk. Barakat, Ashby and Fenn (2017) found that credit rating act as a reputational shield and that lower credit rating cause a severe debt-based reputational damage. An equity private

[11] This amount represents the debtors' estimate of potential pre-petition claims to be resolved in relation with the Chapter 11 cases. This type of liabilities is separated from both those pre-petition liabilities that are not subject to compromise and from post-petition liabilities. Most obligations are only entitled to receive distributions of cash and common stock as provided under the Plan of Reorganization.

placement during unappealing market conditions delivers a positive signal about its investment grade (Besleys, Kohers & Steigner 2007). Yet, this was unsubstantiated by the company's performance after emergence. The instructor could point out higher information asymmetry in private placement (Wu 2003) as a main reason for misleading investments.

Finally, the instructor can conclude that US Airways restructuring failed to consider cost structure benchmark with profitable competitors, financing agreements for its US Airways Express expansion and bankruptcy protection until reaching a sustainable benefits plan agreement. In its second bankruptcy protection, US Airways executed flight equipment asset sale and sale-leaseback transactions that yielded important proceeds to ensure survival. Its strategic bankruptcy allowed the airline to implement strategic relationships with stakeholders to positively impact its likelihood to survive. Research shows that assets that can be efficiently sold in bankruptcy and unfavorable executory contracts push companies for strategic bankruptcy (James 2016).

4. Discussion of mergers and acquisitions under Chapter 11

America West Airlines

Gilson et al. (2015) analyzed the drivers of M&A activity, based on factors specific to Chapter 11 as well as other general factors. They found that M&A in bankruptcy is counter-cyclical, and is more likely to happen when the costs of financing a reorganization are greater than financing costs to a potential acquirer.

On May 2005, US Airways announced that would be merging with America West Airlines (AWA) in a reverse merger. The deal was financed by $1.5 billion and had projected synergies of $600 million a year. The newly issued equity was split between unsecured creditors, outside investors and AWA shareholders. The biggest losers were the residual claimers, that is, shareholders, as their stake in the business was wiped out. As for unsecured creditors, Gilson et al. (2015) show that overall creditor recovery rates are higher when bankrupt firms sell businesses as going concern. Although senior secured creditors may push for liquidation, impaired classes will try to block the liquidation alternative. Unsecured creditors will be given new equity as compensation for the *haircut*[12] suffered and will vote in favor of the reorganization plan. It is important to note that the plan would probably be rejected in case US Airways had forego unsecured creditors.

[12] In debt restructuring plans, a haircut is a percentage reduction of the amount that will be repaid to creditors.

Debtor-in-possession (DIP) financing was financing arranged by the airline during bankruptcy protection, that was given super-priority over existing debt, equity and other claims. Dahiya et al. (2003) found that DIP financed firms are more likely to emerge from Chapter 11 than non-DIP financed firms. DIP financing allows funding for positive NPV projects that increase the likelihood of reorganization and reduce time in bankruptcy.

American Airlines

US Airways' merger with America West Airlines was at best a qualified success. After two bankruptcy filings, the newly merged airline faced poor integration, decline in service quality and dropping employee morale. Moreover, high amounts of debt rapidly restrained its funding combined with rising oil prices and a turbulent financial crisis of 2007-2008. All this led to a depressed and underperforming stock price. See **Exhibit 2** for stock performance, **Exhibits 10 and 11** for historical financials and **Exhibit 19** for forecasted cash-flows.

On November 2011, fuel prices, consecutive losses, dampened travel demand, high labor costs and pension plans pushed American Airlines (AMR) to Chapter 11. From this point onwards, the instructor should foster the discussion around the strategic and financial aspects that relate to the acquisition of American Airlines.

American Airlines did not have any liquidity issues and its filing simply came as a mean to cut costs under bankruptcy court supervision. On one hand, US Airways should not expect a considerable price discount on its bid. On the other hand, the airline should be glad that its target does not present liquidity problems that can hinder the deal or affect negatively the value of the firm during bankruptcy protection. AMR held tax benefits that needed to be valued and considered in its bid **(Exhibit 21).**

There was a clear opportunity to cut labor costs in American Airlines **(Exhibit 18).** The airline filed for bankruptcy long after most of its competitors **(Exhibit 5),** meaning that the bankruptcy court supervision would allow AMR to make additional cuts in payroll. **Exhibit 18** shows that staff costs represented almost a third of its overall operating expenses including depreciation. Furthermore, the opportunity to combine the two airlines' fleet meant increased regional service and network synergies, capitalizing on a complementary international route network with little overlap in the domestic market **(Exhibits 13 and 14).** Finally, the forecast **(Exhibit 20)** indicated that revenues would grow, cost cutting would occur under bankruptcy protection and profit would follow.

Yet, integrating IT systems, networks and other assets meant significant costs arising from the merger. The troublesome fleet integration could easily add up millions worth in training, maintenance and spare parts. Not only that, the airline would have to rethink its strategy to standardize its fleet towards Airbus. **(Exhibit 15**). The instructor should point out termination fees as a cost to consider in case of abrupt termination of negotiations that would cut funding to pursue other equally-attractive business opportunities. Moreover, instructor should outline possible management distraction that could lead to increased inefficiency and wastefulness during the negotiations period and thereafter. Finally, US Airways had still not integrated with America West regarding pilot seniority.

Besides this comprehensive list of costs and benefits, it is important to understand how the merger would work out in terms of both operational model and airline network. After its merger with America West, US Airways had expanded low fare service and increased point-to-point flying. American Airlines defended a hub-and-spoke system and did not adopt the low-cost low-fare operational model.

As a final act, the instructor should discuss potential issues that can arise with the merger. These included a new round of negotiations with pilots that could cut costs substantially although very time consuming for the airline. Also, this would be the biggest M&A deal in an industry that was easily subject to exogenous factors and economic downturns. As such, the potential benefits could be easily wiped out by unforeseen events. Besides that, this deal would attract regulators' attention that were likely to impose terms in realizing the merger's full potential. This could translate into both lower synergy level and long-term free-cash flow growth.

Finally, the instructor should bring AMR Eagle's potential spin-off from its parent company into question. Kutscher (2012) found spin-offs are a smart strategy when the focus of the spun-off division is different from the parent company. AMR Eagle was a regional airline, focused in connecting American Airlines' hubs and other major airports, while the latter operated a hub-and-spoke system. Moreover, several studies found empirical evidence of positive short-term announcement returns surrounding public offerings of spin-offs (Hite and Owers 1983) and over-performance of spun-off subsidiaries (McConnel et al. 2016). As the spin-off was put in the drawer when AMR filed Chapter 11, US Airways would possibly bid for a conglomerate discount. According to Mäntysaari (2010), a conglomerate discount can be a reason for an acquirer to prefer a share deal or a merger.

5. Discussion of protracted bankruptcy and its effect on cash-flows

A protracted bankruptcy meant an overextended period under bankruptcy protection that would adversely affect its operating results, including relationships with key stakeholders like vendors, strategic partners and customers. It was likely that, given the nature of the deal, a bid backed by both labor and creditor groups would be extremely difficult to reach out. As such, the scenario of protracted bankruptcy was likely to happen. Research found that indirect costs were potentially more significant and substantial than direct costs of financial distress, that is, legal costs and fees that arise with Chapter 11 (Senbet and Wang 2012). For example, Hofer et al. (2009) defended that financial distress and air fares were generally negatively related, meaning that extended period in financial distress would depress AMR's revenues and, therefore, become a less valuable target. The instructor should point the need to act quickly and gather support from all impaired groups.

6. Discussion of options and decision

Standalone

Given its bankruptcy filing, American Airlines would most surely not benefit from any tax shield during the restructuring years. As such, no value could be created from debt. The WACC formula incorporates the tax shield effect, thereby not being the right approach to value American Airlines.

$$WACC = \frac{D}{D+E} r_D (1-t) + \frac{E}{D+E} r_E$$

Contrarily, one should use the Adjusted Present Value (APV):

$$APV = NPV_u + NPVF$$

Considering this, the appropriate discount rate to consider should be the unlevered cost of capital r_u.

$$E(r_u) = r_f + \beta_u \times (E(r_m) - r_f)$$

The risk-free rate (r_f) of 1.71 per cent is the average historical 2-year risk-free, while the market risk premium (MRP) equals 5.76 per cent and is also the 2-year historical average **(Exhibit 16).** As 2007-2009 represent an abnormal period of low returns, it was not considered for estimation purposes of r_f and MRP. This allows to have figures that are closer to reality. The unlevered beta is given by:

$$\beta_u = \frac{\beta_l}{\left[1 + (1-t)\frac{D}{E}\right]}$$

The levered beta was taken by regressing stock excess returns on market excess returns during the last five years. As the 2007-2008 subprime crisis had a considerable effect on the company's D/E ratio and overall performance, it was important to include these two years. As such, one found that betas for US Airways and American Airlines were 2.07 and 1.61, respectively. This yielded an unlevered beta of 0.71 and 0.64, using net debt values for D and market capitalization for E. Given this information, the instructor should bring to light the need to consider the industry's average unlevered beta as both companies for the same reason one should not use WACC for AMR. Finally, one needs to re-lever US Airways unlevered beta to find the cost of equity, using the industry's average unlevered beta and its current net debt-to-equity ratio. In order to so, one has that:

$$\beta_l = \beta_u \times \left[1 + (1 - t)\frac{D}{E}\right]$$

$$E(r_e) = r_f + \beta_l \times (E(r_m) - r_f)$$

This yielded a re-levered beta of 2.48 and a cost of equity equal to 16 per cent for US Airways. For the WACC computation, one still needs the cost of debt, which was estimated using risk-free rate and adding a default risk premium according to **Exhibit 16.**

$$E(r_d) = r_f + default\ risk\ premium$$

The cost of debt for US Airways is equal to 8.21 per cent while it is 15.71 per cent for American Airlines. Given this information, one computes a WACC of 10.07 per cent for US Airways and r_u of 6.61 per cent for American Airlines. **TN Exhibits 5 and 6** show the table with free cash-flows.

Moreover, one can also assess the value of both companies using multiples valuation. The multiple used is Enterprise Value over EBITDAR, which is a multiple designed for industries such as this one with a considerable amount of rents (aircraft) and restructuring costs. By using this multiple, the effect of choosing between aircraft ownership and leasing is eliminated. **TN Exhibit 4** shows relative valuation for both US Airways and American Airlines. According to computations, US Airways is valued at $4.8-4.9 billion while American Airlines is currently worth $5.7-5.9 billion.

$$Target\ Enterprise\ Value = EBITDAR_{2011} \times \left(\frac{Enterprise\ Value}{EBITDAR}\right)_{INDUSTRY}$$

As expected, the different valuation procedures yielded substantial differences in terms of valuation. American Airlines is worth $19.4 billion using DCF Method while is worth $5.9 billion using Relative Valuation. This happens because the multiples valuation does not account for the future cost cutting and revenue enhancement that will be occur with the restructuring plan.

Merger

Finally, to assess the deal, Doug Parker needed to ensure that he would be creating value for his shareholders. He would have to pay a premium and reap the synergies as they were the source of value in the deal. The gain for US Airways shareholders was as follow:

$$Gain_A = V_{AB} - V_A - P_B = (V_{AB} - V_A - V_B) - (P_B - V_B) = Synergy - Acquisition\ Premium$$

Considering the formula above, one has that, to create value ($Gain_A$>0) the maximum acquisition premium should be equal to the present value of synergies. As such, it is important to assess the value of these synergies. Per case information, one has a conservative estimate of a synergy potential of $1.05 billion per annum and $1.2 billion integration costs that are equally spread across the initial three years. Finally, to discount these cash-flows, one should use the discount rate of US Airways - the acquirer. If the company decides to acquire American Airlines, US Airways will most likely need external funding and its D/E ratio will change. As such, the true estimated value of synergies can be lower than the one presented in **TN Exhibit 7**. Finally, one has:

$$V_{AB} = V_A + V_B + S, \text{ assuming no acquisition premium}$$

Performing the computations, it was found that the merged company has a valuation of $28.9 billion, which is considerably higher than its main peers (Delta Air Lines and United Continental Airlines). These computations take American Airlines restructuring plan into consideration. **TN Exhibit 8** provides a summary on US Airways, American Airlines and deal synergies valuation, using DCF valuation method. The terminal value was computed assuming a FCF perpetual growth equal to the long-term inflation rate of 1.5 per cent and the aforementioned discount rates for each company.

$$Terminal\ Value = \frac{FCF_{2016} \times (1 + g)}{r - g}$$

From the computations, it was found that American Airlines has a value of $19.4 billion, US Airways of $3.7 billion and synergies are valued at $5.7 billion. US Airways' weakened financial performance and problematic integration with America West Airlines ripped out a lot of value for the company. The instructor should bring **Exhibit 6** to question, since the numbers do not add up with Doug Parker's statement.

To finance such deal, one needs to acknowledge the particularities of the deal. This merger comprises of one firm that is much smaller than another trying to acquire the latter under bankruptcy protection. As observable in **Exhibit 11,** there is insufficient excess cash to finance the deal, so the company would most likely need to raise equity through Seasoned Equity Offering (SEO) or debt through capital markets or private consortiums. Given its high leverage ratio, increasing debt to fund this deal would put the company under huge financial distress and endanger value creation - the D/E ratio would increase from 3.19 to 16.9. As such, financing the deal with debt would not be a good option.

The other option to pay with stock also seems unreasonable as US Airways was underperforming (closing price of $5.07) and it would require large issuances to have sufficient resources to buy-out. This meant that current shareholders would suffer heavily ownership dilution and their earnings per share would also be negatively affected. **TN Exhibit 9** provides a sensitivity analysis on earnings per share. From this analysis, one can conclude that US Airways would face EPS dilution. A mix between both options was possible to be achieved but, considering the huge disparity in companies' valuations, very unlikely. The instructor should favor a merger where both equities are exchanged for newly issued equity like in the reverse merger between US Airways and America West Airlines. **TN Exhibit 10** provides a comprehensive list of the advantages and disadvantages of paying with cash or stock.

Decision and Merger Proposal

Structuring the deal like AWA's meant wiping out all existing equity and give shareholders and unsecured creditors a stake in the merged company. Doug Parker was aware that both labor and creditor backing was crucial when bidding for a company under financial distress. Both creditors and labor groups with claims were called to vote upon the reorganization plan. This meant that they would decide on the fate of the company: either push it for liquidation or accept the reorganization plan. Only impaired classes were called to vote, as the remaining classes were secured by company's assets **(Exhibit 22)**. Moreover, it was important to include shareholders in the proposal. Shareholders would be called to vote on the merger in case American Airlines emerged as an independent firm.

While classes that are fully paid under liquidation will push for Chapter 7, unsecured creditors with few to none recovery rate will be interested in negotiating terms or reducing the face value of debt. Shareholders will want to negotiate a stake on the business after emergence. Labor groups will want to be compensated for the cost cutting that will occur in bankruptcy protection. Considering this, Doug Parker should include creditors, labor groups with identifiable claims and both companies' shareholders. He should prioritize the value creation for his shareholders, then ensure a proper recovery rate to creditors and labor groups and, finally, to the residual claimers - the shareholders.

The merged company's valuation is set at $28.9 billion. If the new number of outstanding shares is set as the sum between both companies', one has 496 million outstanding shares. The equity value is the enterprise value minus net debt.[13] The instructor should note that this is the worst-case scenario as debt will likely reduce during bankruptcy protection. This yields an equity value of $22.1 billion, which implies a share price of $44.6. The share price will greatly differ with the amount of realized synergies and cost cutting. Moreover, the share price will impact the shareholders' stake in the new business since the higher the share price, the easier it is to repay unsecured creditors. Concluding, one knows that the amount of incumbent shareholders' ownership will increase with the share price.

Another important consideration is that US Airways shareholders' stake should capture all synergies from the deal. This way, Doug Parker ensures the support from his shareholders. Also, the CEO will not have to consider a premium in the deal because shareholders are already frightened of losing their stake in the business with the reorganization plan - their bargaining power is low to inexistent. Finally, to avoid conflict among creditors, the CEO should aim for a 100 percent recovery rate in all classes.

TN Exhibit 11 provides the detailed ownership in the merged company, in a multitude of scenarios. The instructor should note that in scenario I, Doug Parker cannot guarantee a 100 percent recovery rate for all classes involved. He should acknowledge scenarios IV to VII as the most likely to occur. The net debt of the merged company should reduce due to debt restructuring in bankruptcy, which leaves more value for equity holders.

Epilogue

On December 2013, the Department of Justice approved the merger between American Airlines and US Airways creating the **world's largest airline**. The new stock was split between both sides, with 28 percent handed to US Airways and the remainder to AMR's shareholders, unsecured creditors and labor groups. The clear winners were the shareholders as they got ownership in the new company instead of having their stake wiped out upon emergence. As for unsecured creditors and other claimants, they experienced full recovery rates. Finally, labor groups were the ones to bore the cost as their earned stake was insufficient to compensate the present value of their pay cut. On October 2015, US Airways made its final debut flight US1939 to end a pioneering decade of consolidation that reshaped the whole industry.

[13] Assumed to be equal to the sum of both net debts.